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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 001595

SIPDIS

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TAGS: [EAGR](#) [EAID](#) [ECON](#) [PREL](#) [ZI](#)

SUBJECT: TOBACCO: PRODUCTIVITY OR POLITICS - CHOICE IS MUGABE'S

Classified By: AMBASSADOR CHRISTOPHER DELL FOR REASONS 1.5(B) AND 1.5 (D)

¶1. (C) Summary: The Ambassador and DCM met September 13 with James de la LaFargue and Andrew Ferreira, President and Vice-President respectively of the Zimbabwe Tobacco Association. De la Fargue said tobacco could again become a major export earner but for that to happen the government had to restore stability to the agricultural sector and bring to a close its land reform policies. The Ambassador said that he was interested in ideas about how the U.S. might help agricultural production rebound. End Summary.

Zimbabwe,s Key Crop

¶2. (C) De la Fargue said tobacco had been the most important cash crop in Zimbabwe. At its peak in 2000, tobacco had accounted for 20 percent of GDP, 20 percent of employment, and 33 percent of exports. Production that year was 240 million kilograms. By contrast, production this year would be more on the order of 60-70 million kilograms. De la Fargue said it was unlikely Zimbabwe would ever again produce a crop like that of 2000 but that there was still scope for Zimbabwe to at least double its production. Zimbabwe still had a strong comparative advantage in tobacco production: near ideal climate and soil conditions.

¶3. (C) However, de la Fargue said for Zimbabwe to realize its potential, the government had to make the decision to emphasize production over politics and put an end to the uncertainty created by its approach to land reform. Tobacco was a crop that required a heavy up front investment. Seedbeds had to be laid 18 months in advance. His association was now composed primarily of small growers. There were roughly 1000 small tobacco growers, virtually all black, and only around 500 larger commercial growers, of whom roughly half were white Zimbabwean and the other half black. For both groups, but especially for the former, land security was the key to a rebound in production. The smaller farmers needed a clear title to the land in order to raise the capital needed to invest in tobacco production.

Land Seizures Need to End

¶4. (C) The Ambassador said his impression was that land reform was close to a fait accompli and was certainly unlikely to be rolled back. He asked de la Fargue for his views. De la Fargue said land reform was probably irreversible but said the insecurity caused by continuing land seizures had become a principal obstacle to restored production. His hope and expectation was that following next spring,s parliamentary elections, President Mugabe would decide to bring an end to land seizures and to restore stability to the sector. If he did not and the government continued to pursue radical policies that hobbled the economy, the country would likely see massive emigration.

¶5. (C) De la Fargue said the other major obstacle to a rebound in production was the unresolved compensation claims of farmers already dispossessed. As long as ownership of the land was in doubt, so was ownership of the crop, and this sort of uncertainty would impede badly needed foreign investment. At this point, the dispossessed farmers would likely accept pennies on the dollar and had already accepted the principal that they would not be compensated for the land itself, but only for improvements they had made to the farms. De la Fargue added that there were 4000 farmers to compensate with an estimated average claim of US\$500,000. Thus for a fraction of US\$ 200 million, the problem could be made to go away. However, the GOZ was insisting that the UK foot the bill and the UK was insisting the GOZ pay the farmers.

Dealing with the GOZ

16. (C) De la Fargue said his main conduit to Mugabe was through Zimbabwe Reserve Bank (ZRB) President Gideon Gono. Gono was the one senior GOZ official who understood market economics. He had proven an honest interlocutor and an effective advocate. Gono had made tobacco a privileged sector, able to obtain foreign exchange from the bank with which to buy needed inputs. That said, de la Fargue acknowledged that Gono was one of the senior Zimbabwean officials most able to profit from the lack of convertibility and existence of a parallel currency market, and that the presence of such officials was fast becoming an impediment to reform.

Comment

17. (C) De la Fargue is the first interlocutors with whom we've talked who put a price tag on compensation for the farmers and the number he gave underscores how little it would take, especially with private sector involvement, to break one of the logjams on this issue.
Dell